

FINANCIAL AUDIT
OF THE
MICHIGAN STATE FAIR AND EXPOSITION CENTER
DEPARTMENT OF AGRICULTURE
October 1, 2000 through September 30, 2001



Michigan *Office of the Auditor General* **REPORT SUMMARY**

Financial Audit

Michigan State Fair and Exposition Center
Department of Agriculture
Fiscal Year Ended September 30, 2001

Report Number:
79-305-02

Released:
October 2002

A financial audit determines if the financial schedules are fairly presented; considers internal control over financial reporting; and determines compliance with State compliance requirements material to the financial schedules. This financial audit of the Michigan State Fair and Exposition Center (MSFEC) was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on MSFEC's financial schedules.

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Internal Control Over Financial Reporting

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify reportable conditions (Findings 1 and 2).

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Noncompliance Material to the Financial Schedules

We did not identify any instances of noncompliance applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

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Background:

Act 361, P.A. 1978 (Sections 285.161 - 285.176 of the *Michigan Compiled Laws*), created MSFEC. The Department of Agriculture has the responsibility of conducting an annual Michigan State Fair and other exhibits or events for the purpose of promoting all phases of the economy of the State. The fairgrounds consist of approximately 200 acres located in Detroit. The 2001 Michigan State Fair was held August 21, 2001 through September 3, 2001. The Fair's reported paid attendance was 273,274.

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A copy of the full report can be
obtained by calling 517.334.8050
or by visiting our Web site at:
www.state.mi.us/audgen/



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201 N. Washington Square
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

October 9, 2002

Mr. Douglas E. Darling, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Constitution Hall
Lansing, Michigan

Dear Mr. Darling and Mr. Wyant:

This is our report on the financial audit of the Michigan State Fair and Exposition Center, Department of Agriculture, for the period October 1, 2000 through September 30, 2001.

This report contains our report summary; our independent auditor's report on the financial schedules; and the Michigan State Fair and Exposition Center financial schedules, notes to the financial schedules, and supplemental financial schedules. This report also contains our independent auditor's report on compliance and on internal control over financial reporting; a comment, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

April 25, 2002

Mr. Douglas E. Darling, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Constitution Hall
Lansing, Michigan

Dear Mr. Darling and Mr. Wyant:

We have audited the accompanying schedule of General Fund revenue and the schedule of sources and disposition of General Fund authorizations of the Michigan State Fair and Exposition Center, Department of Agriculture, for the fiscal year ended September 30, 2001. These financial schedules are the responsibility of the Michigan State Fair and Exposition Center's management and the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Michigan State Fair and Exposition Center are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and the sources and disposition of authorizations for the Michigan State Fair

and Exposition Center's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Michigan State Fair and Exposition Center or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and the sources and disposition of authorizations of the Michigan State Fair and Exposition Center for the fiscal year ended September 30, 2001, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 25, 2002 on our tests of the Michigan State Fair and Exposition Center's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying supplemental financial schedules, consisting of the schedule of General Fund revenue by source and the schedule of General Fund expenditures and transfers out, are presented for purposes of additional analysis and are not a required part of the Michigan State Fair and Exposition Center's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

MICHIGAN STATE FAIR AND EXPOSITION CENTER
Department of Agriculture
Schedule of General Fund Revenue
Fiscal Year Ended September 30, 2001

REVENUE

Miscellaneous revenue:	
Fair revenue	\$ 5,052,498
Non-Fair revenue	<u>190,299</u>
 Total Revenue	 <u><u>\$ 5,242,797</u></u>

The accompanying notes are an integral part of the financial schedules.

MICHIGAN STATE FAIR AND EXPOSITION CENTER
Department of Agriculture
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Year Ended September 30, 2001

SOURCES OF AUTHORIZATIONS (Note 2)

Balances carried forward	\$ 107,235
Restricted financing sources	<u>5,242,798</u>
Total	<u><u>\$ 5,350,033</u></u>

DISPOSITION OF AUTHORIZATIONS (Note 2)

Expenditures and transfers out	\$ 5,265,333
Restricted revenue - not authorized	<u>84,700</u>
Total	<u><u>\$ 5,350,033</u></u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Michigan State Fair and Exposition Center (MSFEC), Department of Agriculture, for the fiscal year ended September 30, 2001. The financial transactions of MSFEC are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

Act 361, P.A. 1978 (Sections 285.161 - 285.176 of the *Michigan Compiled Laws*), created MSFEC. The Department of Agriculture has the responsibility of conducting an annual Michigan State Fair and other exhibits or events for the purpose of promoting all phases of the economy of the State. The fairgrounds consist of approximately 200 acres located in Detroit. The 2001 Michigan State Fair was held August 21, 2001 through September 3, 2001. The Fair's reported paid attendance was 273,274.

The notes accompanying these financial schedules relate directly to MSFEC. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; Pension Benefits and Other Postemployment Benefits; and Compensated Absences.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and the sources and disposition of authorizations for MSFEC's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either MSFEC or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. Restricted financing sources: Collections of restricted revenue, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- b. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular program or activity. However, the Department had not received legislative authorization to expend the revenue.

SUPPLEMENTAL FINANCIAL SCHEDULES

MICHIGAN STATE FAIR AND EXPOSITION CENTER
Department of Agriculture
Schedule of General Fund Revenue by Source
Fiscal Year Ended September 30, 2001

REVENUE

Fair Revenue:

Gate admissions	\$ 1,997,093
Parking	363,298
Midway rides and games	1,071,724
Merchandise sales	43,143
Vendor space	449,673
Sponsorship	885,069
Stickers and passes/entry and stall fees	175,643
Miscellaneous	66,854
Total Fair Revenue	<u>\$ 5,052,497</u>

Non-Fair Revenue:

Gate admissions	\$ 10,470
Parking and camping	31,144
Sponsorship	450
Rentals - buildings and grounds	104,500
Maintenance, janitorial, and utilities	36,669
Commissions on concessions	4,823
Miscellaneous	2,243
Total Non-Fair Revenue	<u>\$ 190,299</u>
 Total Revenue	 <u><u>\$ 5,242,797</u></u>

MICHIGAN STATE FAIR AND EXPOSITION CENTER
Department of Agriculture
Schedule of General Fund Expenditures and Transfers Out
Fiscal Year Ended September 30, 2001

EXPENDITURES AND TRANSFERS OUT

Director	\$ 71,600
Administration and manager's office	1,742,588
Buildings and grounds maintenance	1,205,337
Security	401,467
Agriculture and livestock	623,242
Community arts	113,453
Entertainment	993,227
Volunteers	25,566
Spring horse show	88,853
Total Expenditures and Transfers Out	<u>\$ 5,265,333</u>



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

April 25, 2002

Mr. Douglas E. Darling, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Constitution Hall
Lansing, Michigan

Dear Mr. Darling and Mr. Wyant:

We have audited the General Fund financial schedules of the Michigan State Fair and Exposition Center, Department of Agriculture, for the fiscal year ended September 30, 2001 and have issued our report thereon dated April 25, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Michigan State Fair and Exposition Center's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Michigan State Fair and Exposition Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting.

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Michigan State Fair and Exposition Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. Reportable conditions are described in Findings 1 and 2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that neither of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the Department of Agriculture, the State's management, and the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

COMMENT

Background: The Department of Management and Budget (DMB) and the Department of Agriculture signed a 30-year agreement leasing the Michigan State fairgrounds to the State Fair Development Group, L.L.C. (SFDG), beginning October 1, 2000. The lease requires that the Michigan State Fair and Exposition Center (MSFEC) reimburse SFDG for all expenses incurred managing and operating the premises during the annual State Fair. The lease states that SFDG shall not be entitled to reimbursement for expenses incurred conducting events from which SFDG is entitled to retain the revenues.

FINDING

1. Improper Payment of Invoice Charges

MSFEC paid \$91,361 to SFDG based on SFDG charges for services that were not the responsibility of the State.

During fiscal year 2000-01, in several invoices submitted to MSFEC, SFDG included charges for various services totaling \$108,769. MSFEC disputed several of the charges because they were not the responsibility of the State. For example, \$56,154 of the disputed charges (invoiced separately in amounts of \$29,000, \$18,032, \$5,346, and \$3,776) were costs for cleanup, maintenance, manure removal, and security for a horse show sponsored by SFDG. Despite MSFEC objections, DMB directed the Department of Agriculture and MSFEC to pay the entire \$108,769. Subsequently, DMB reimbursed the \$108,769 to MSFEC.

Our analysis of these charges disclosed that MSFEC was responsible for and should have paid SFDG \$17,407 (16%) of the \$108,769. The remaining \$91,362 (84%) of the charges were not the responsibility of the State.

As a result of DMB's \$108,769 reimbursement to MSFEC, MSFEC's schedule of sources and disposition of General Fund authorizations and the schedule of expenditures and transfers out do not include \$17,407 in charges that MSFEC was obligated to pay SFDG. In addition, DMB did not have authorization to make payments to MSFEC or on behalf of MSFEC. Therefore, DMB General Fund

accounts include charges of \$17,407 that should have been included in MSFEC accounts and \$91,361 of charges that were not obligations of the State.

RECOMMENDATIONS

We recommend that MSFEC and DMB expend funds only for charges that are the responsibility of the State.

We also recommend that MSFEC and the Department of Agriculture work with DMB to recover the \$91,361 inappropriately paid to SFDG.

We further recommend that DMB and the Department of Agriculture coordinate their monitoring of invoices with MSFEC to ensure that all costs associated with the lease are eligible State expenditures.

AGENCY PRELIMINARY RESPONSE

MSFEC agrees with the finding and that funds should only be expended for charges that are the responsibility of the State. MSFEC informed us that it has provided the necessary information to DMB to identify inappropriate expenditures and that it will continue to fulfill its fiduciary responsibilities as identified in the enabling statutes and lease agreement. MSFEC also stated that litigation is in process relative to the lease agreement for which DMB is the lead agency.

FINDING

2. Mail Receipts

MSFEC needs to improve internal control* over cash received by mail.

DMB Administrative Guide procedure 1270.02 requires that no fewer than two individuals open mail, that checks and money orders be restrictively endorsed immediately upon receipt, and that cash received by mail be recorded on a cash log prepared by the mail openers.

* See glossary at end of report for definition.

Our review of MSFEC mail opening practices disclosed deviations from prescribed internal control procedures:

- a. MSFEC did not open mail immediately upon receipt as required by the DMB Administrative Guide. Rather, when mail was received, MSFEC distributed the unopened mail to various areas of responsibility. These areas received revenue from MSFEC's sponsorship, vendor space rental, and entry and stall fees (\$885,069, \$449,673, and \$175,643, respectively, during fiscal year 2000-01). As a result, personnel in these areas had an opportunity to circumvent internal control without being detected in a timely manner.
- b. MSFEC did not restrictively endorse checks immediately upon receipt as required by the DMB Administrative Guide. Restrictively endorsing checks immediately upon receipt reduces the risk that checks could be misappropriated.

As a result of internal control weakness related to mail receipts, MSFEC lacked assurance that all cash received was subsequently deposited into MSFEC accounts.

RECOMMENDATION

We recommend that MSFEC improve internal control over cash received by mail.

AGENCY PRELIMINARY RESPONSE

MSFEC agrees with the finding and informed us that, effective May 2002, MSFEC has two people opening the mail, logging cash received, and restrictively endorsing checks for immediate deposit.

Glossary of Acronyms and Terms

DMB	Department of Management and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
MSFEC	Michigan State Fair and Exposition Center.
reportable condition	A matter coming to the auditor's attention relating to a deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.
SFDG	State Fair Development Group, L.L.C.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>